Attachment 2

MEMORANDUM

To: Members of the Investment Committee
California Public Employees' Retirement System

From: Pension Consulting Alliance (PCA)

Date: September 13, 2010

Subject: AIM Performance through June 30, 2010

AIM outperformed the Policy Index by 0.1% and the Long-Term Policy by 2.6% over the latest ten-year period as of June 30, 2010. Over the latest one-year, thee-year and five-year periods, AIM underperformed the Policy Index by 25.5%, 9.9% and 5.2%, respectively.

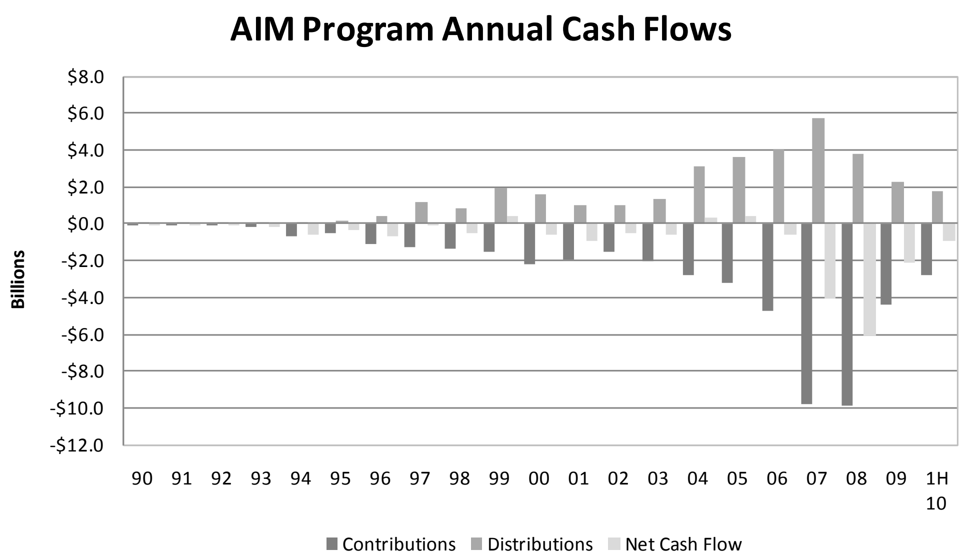
AIM Performance: periods ending June 30, 2010

	1 Year	3 Year	5 Year	10 Year
AIM Program*	30.9%	2.4%	9.5%	4.6%
Policy Index**	56.4%	12.3%	14.7%	4.5%
Wilshire 2500 ex-tobacco + 300 bp	55.0%	-0.7%	5.5%	2.7%
Long-Term Policy***	---	---	---	2.0%

* The NAV of CalPERS' AIM segment is lagged one quarter with adjustments for current cash flows through the reporting period
** The Whilshire 2500 ex-tob +3% (from and since July 2009); previous periods for the AIM Policy Index are linked historically to the Custom Young Fund, AIM's prior benchmark
***10-year Wilshire 2500 + 3%
Source: Wilshire Associates

AIM's dramatic one-year underperformance relative to the Policy Index reflects the composition differences between the Policy Index (public equity) and the AIM Program (private equity). With the public markets exhibiting a strong rebound over the last nine months of 2009 and the first quarter of 2010, the public market components generated very strong one-year returns (lagged one quarter from 6/30/2010) and the private market valuations were not able to keep pace. Despite efforts to "mark-to-market" private holdings, valuation increases (i.e. write-ups) are believed to be incorporated at a slower pace than the gains posted by the public markets over recent periods. The one-year results for both the AIM Program and the Policy Index changed significantly from prior quarterly reports, improving through 2009 and into the first half of 2010 but the AIM Program trailed the Policy Index due to significant public market recovery. In addition, the Policy Index has benefited from the inclusion of the Custom Young Fund Index (composed of private equity holdings) historically as private equity holdings were also not written-down as rapidly as the public markets declined early in the reporting period. The AIM Program has outperformed the Wilshire 2500 ex-tobacco + 300 bps over all periods evaluated except the latest one-year period.

The Program's aggregate cash flows have been impacted by the broad market dynamics. Contribution and distribution activity was at its highest in 2007 and 2008, attributable to significant investment activity, influenced by readily available debt, and material liquidity events. However, during this time period the net cash flow of the Program was negative (contributions exceeded distributions). As a result, significant amounts of capital were deployed in the 2007-2008 time period which may outweigh other vintages going forward. The long-term impact of this capital deployment is uncertain at this time.

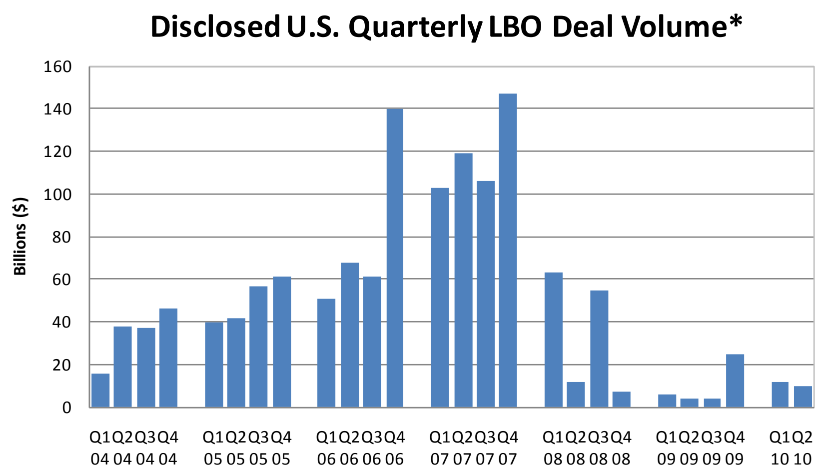


Source: LP Capital Advisors, PCA

Since mid-year 2008, distributions declined significantly from their 2007 peak. Nearly half of the distribution activity for 2009 occurred in the fourth quarter of 2009 ($1.1 billion) and $1.8 billion has been distributed over the first six months of 2010, representing a stronger nine-month period of activity. (Of note, PCA understands that approximately one-third of recent distributions are potentially recallable.) Contribution and distribution activity in the first half of 2010 suggests it will outpace 2009.

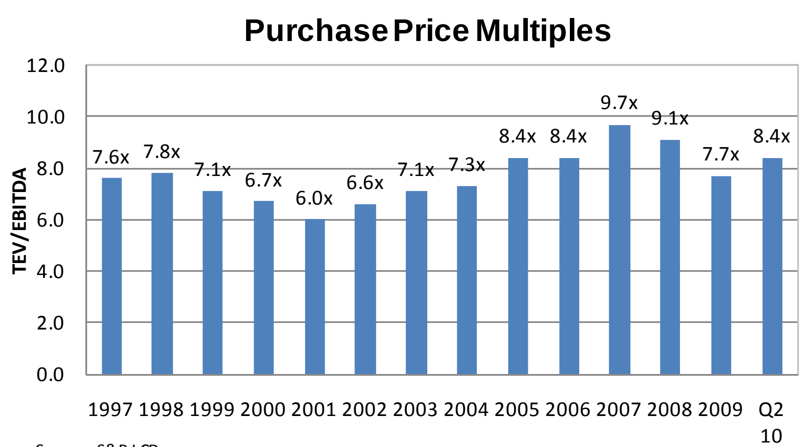
Recent private equity trends

U.S. buyout deal volume remained at low levels through the first six months of 2010 with only $22 billion in transaction value year-to-date. In 2009, buyout activity totaled $39 billion in transaction value for the year. Quarterly activity has been higher in the first two quarters in 2010 relative to the first three quarters of 2009, but the fourth quarter transaction volume appears to have been more of a short burst of activity rather than the beginning of a trend. Activity levels over the past couple of years have been well below the peak transaction levels of $137 billion and $475 billion for 2008 and 2007, respectively.



* total deal size (both equity and debt
Source: *Thomson Reuters Buyouts*

Purchase price multiples (as represented by total enterprise value divided by earnings before interest, taxes, depreciation and amortization) declined from their 2007 peak but have already rebounded to 8.4x as of the second quarter, up from 7.7x in 2009. The current 8.4x purchase price multiple is slightly above the ten-year average for the industry (7.9x).



Source: S&P LCD

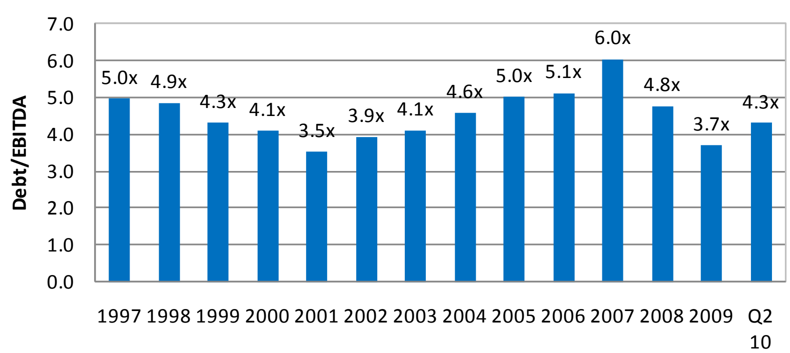
The initial decline in purchase price multiples can be attributed to valuations under pressure and the lack of available financing. However, many industry participants believe that the recent increase in purchase price multiple has been caused by general partners feeling pressured to deploy capital. This is due to the significant amount of "dry powder" remaining in the industry combined with the approaching termination of some funds' investment periods.

In addition, investors should be monitoring transaction activity between private equity firms. Historically, such transactions have been reasonable under the circumstances, such as a smaller firm selling to a larger firm or a transaction where the purchasing firm has a particular area of expertise that is believed to position them to continue to add value. However, given the challenging environment, investors should be alert for transactions between private equity firms that may be completed to simply create liquidity and/or deploy capital. According to "Buyouts," sponsor-to-sponsor transactions (also known as secondary buyouts) represented 14% of all control-stake transactions (based on the number of transactions) in the second quarter of 2010, up from 10% in the first quarter and 2% one year ago.

Portfolio companies acquired in 2001 through 2004 were purchased in an environment where the industry purchase price multiple was below the current average (i.e. a lower valuation environment). Conversely, the 2005 to 2008 time frame suggests a higher valuation environment for investment transactions. The influence of industry valuations at purchase is not absolute, but is commonly a material component of performance.

The average debt multiple has exhibited a similar pattern as the purchase price multiple, declining from a peak in 2007 to a low in 2009 and a rebound in the first six months of 2010. The declining debt multiple has resulted in an increase in the average equity component of a transaction from 31% in 2007 to 46% as of mid-year 2010. These dynamics have caused the more conservative capital structures for transactions completed in the current environment.

Average Debt Multiples

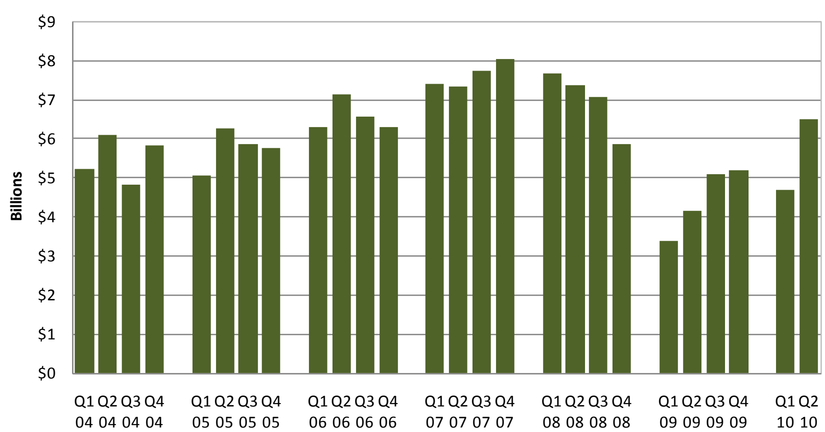


Source: S&P LCD

The AIM Program's monitoring firm, LP Capital Advisors, is in the process of gathering leverage data for the holdings of the portfolio. The proportion of portfolio holdings gathered to date is insufficient to warrant the reporting of this information at this time. As the coverage of the portfolio increases and the data can be appropriately aggregated, this information is expected to be presented in future reports.

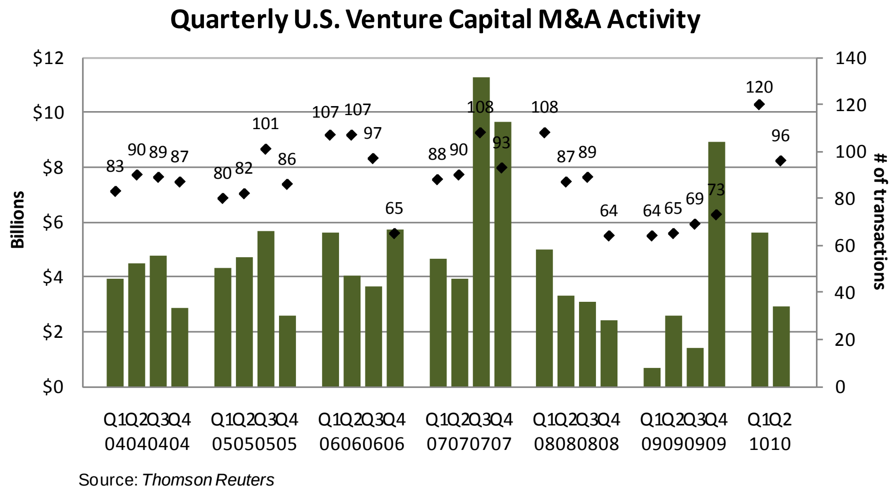
Venture capital investment activity increased throughout 2009 and continued an upward trend in the second quarter of 2010 after a slight dip in the first quarter. Approximately $11.2 billion was invested across 1,591 transactions in the first six months of 2010, up from $7.6 billion invested across 1,315 transactions in the first half of 2009. For the full 2009 calendar year, $17.9 billion was invested across more than 2,800 companies. In comparison, approximately $28.0 billion was invested across more than 3,900 companies during 2008 and 4,000 companies attracted $30.5 billion of venture capital investment in 2007.

Quarterly U.S. Venture Capital Deal Volume*

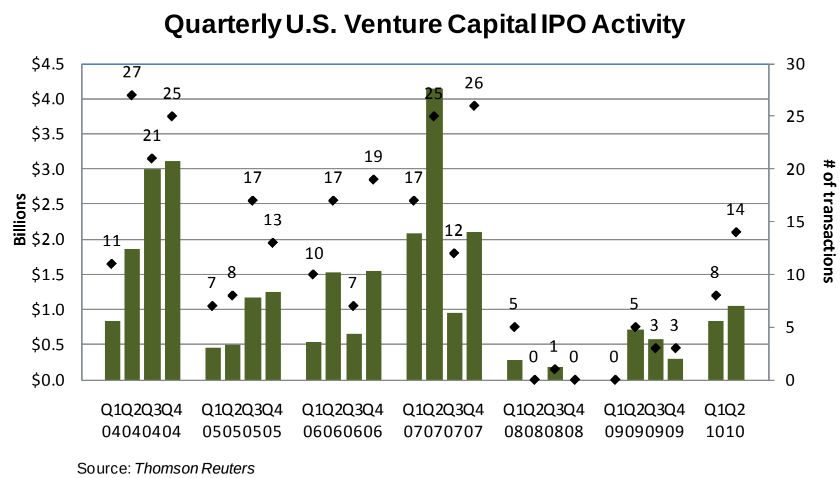


* only includes equity portion of deal value
Source: *Thomson Reuters*

Exit opportunities for venture-backed companies are showing signs of increased activity, but the markets have yet to exhibit consistent exits. In the first six months of 2010, 216 venture-backed M&A transactions representing $8.5 billion in value were completed, well above the $3.2 billion in value transacted in the first six months of 2009 ($13.5 billion transacted during the 2009 calendar year). However, quarter-over-quarter activity has been volatile. Venture-backed M&A activity exhibited a spike in the fourth quarter of 2009, totaling $9.6 billion transacted across 72 deals, but was not able to keep pace in the first two quarters of 2010.

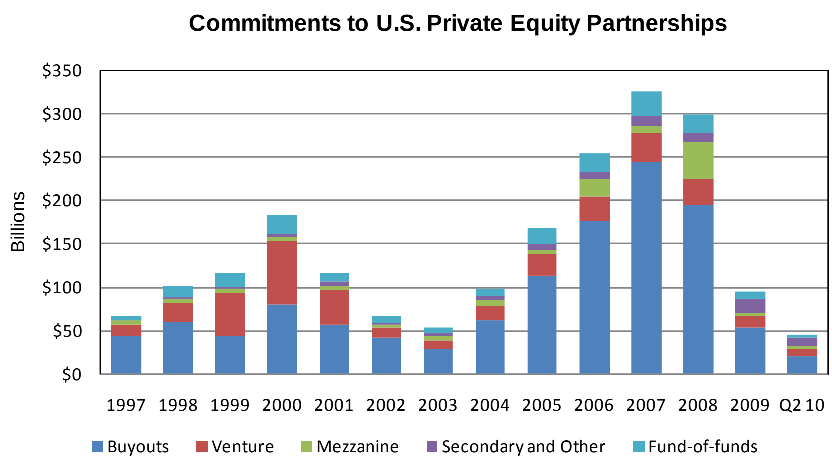


Eleven venture backed companies went public in 2009, raising $1.6 billion. IPO activity has increased during the first six months of 2010 as 22 venture-backed companies went public, raising $1.9 billion.



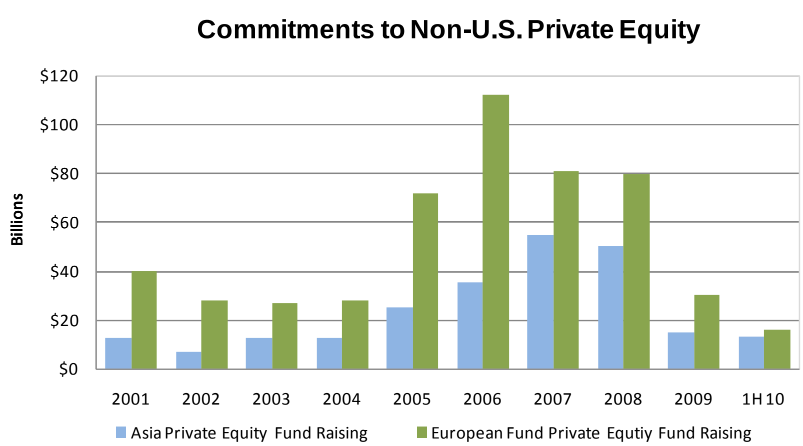
Due in large part to continued investor uncertainty and the "denominator effect" (i.e., as the total value for a plan's assets decreases in parallel with public market holdings while private equity valuation changes lag the public markets, the private equity portfolio becomes a larger percentage of the shrinking portfolio), fund raising activity declined materially in 2009 and has continued to be slow in 2010. Approximately $95.8 billion of commitments were raised last year, down from $299.9 billion in 2008. Commitments to buyouts continued to lead the way, raising $53.8 billion, but still well below the $195.5 billion raised during 2008. Venture capital commitments exhibited a 55% decline, raising $13.0 billion in 2009 compared to $28.7 billion in 2008. The mezzanine sector also exhibited a decline from the prior year, raising only $3.3 billion in 2009. Secondary and "other" funds exhibited the only year-over-year increase – raising $17.5 billion in

2009 compared to $9.6 billion in 2008. Buyouts continue to lead fund raising activities through June 30, 2010 raising $21.0 billion of commitments, followed by venture capital at $7.5 billion. Annualizing commitment activity of $45.1 billion for the first six months of 2010 projects a continued decline in annual activity.



Source: Private Equity Analyst through June 2010

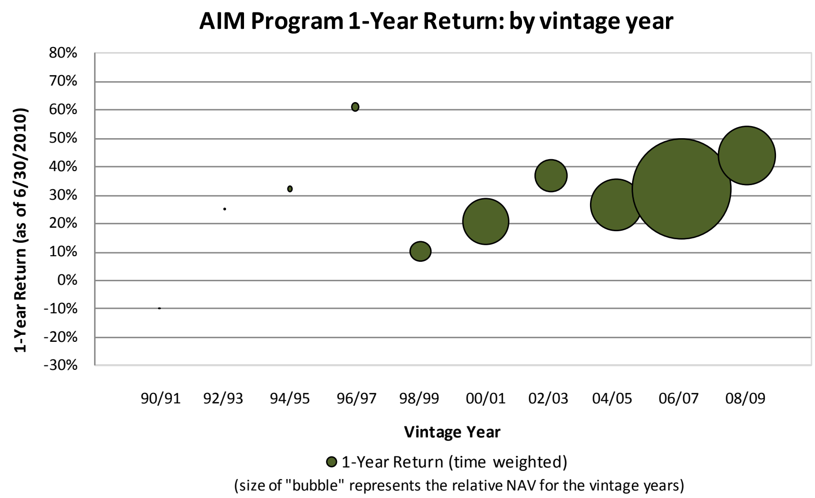
Commitments to private equity partnerships outside of the U.S. have exhibited similar declines in fund raising activity over the past several years. Commitment activity to European private equity has outpaced commitment activity to Asian private equity with both regions trailing the activity of the U.S. markets.



Source: EVCA, PERPEP_Analystics, AVCJ, Private Equity Analyst, PCA

A closer look at the AIM Program

The following chart depicts the distribution of returns and net asset values by vintage years for the AIM Program. Although the Program is in its twenty-first year, the preponderance of value (represented by the size of the "bubble") and performance results are being driven by investments made in the last ten years.



Source: LP Capital Advisors, PCA

The five largest relationships represent approximately 37% of total Program value with Apollo Management representing the largest relationship at $3.7 billion (13%). Amongst these five firms, capital is allocated across 78 investments (partnerships and direct investments) and targets multiple sectors and geographies.

Largest AIM Relationships by Market Value

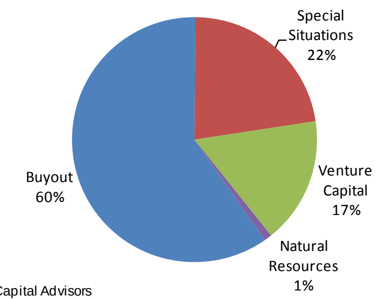
Firm	Investments	Market Value ($M)	% of Program
Apollo Management	14	3,712	13%
The Carlyle Group	36	2,872	10%
TPG	17	1,580	6%
Grove Street Advisors	4	1,406	5%
Avenue Capital Group	7	1,087	4%

Source: LP Capital Advisors, PCA

Sector distribution reflects the markets that AIM believes will enable it to produce the expected return imbedded in the Investment Committee's asset allocation decisions. The following charts portray the sector distribution by performance and net asset value (NAV). The Buyout sector, the portfolio's largest exposure at 60% of NAV, rebounded over the latest year as portfolio companies attempted to de-lever and valuations benefited from the increase in public market pricing. However, it is anticipated that many companies will still have to refinance material amounts of debt in an uncertain credit market leading to potential challenges going forward.

Special Situations (which also includes the credit opportunities and real estate subcategories) represents approximately 22% of NAV, followed by Venture Capital (17%), and Natural Resources (1%).

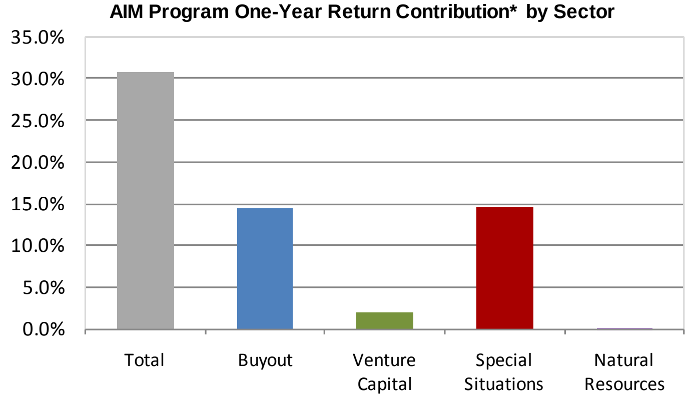
AIM Program NAV by Sector: $28.6 B



Source: LP Capital Advisors

The Special Situations sector (particularly the current income and distressed sub-categories) was the largest contributor to performance over the latest year as debt pricing rebounded significantly. Valuation increases of buyout holdings (particularly in the large and mega sub-sectors) combined with the material exposure mentioned above, resulted in buyouts being the second largest contributor to performance over the latest year. Venture Capital and Natural Resources provided minimal impact over the latest year. The one-year results for the AIM Program improved dramatically over the latest quarter, up from a one-year return of 8.3% three months ago, highlighting the volatility in the marketplace and the challenge associated with examining shorter-term results in the private equity asset class.

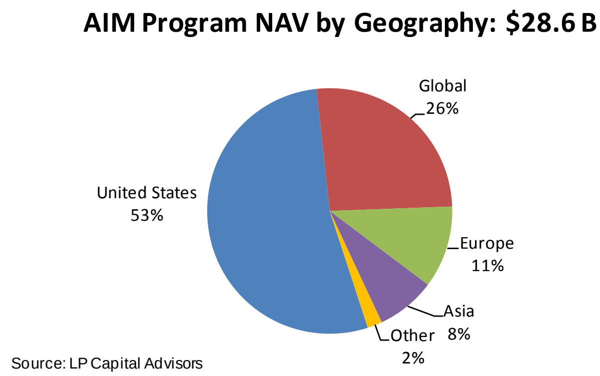
AIM Program One-Year Return Contribution* by Sector



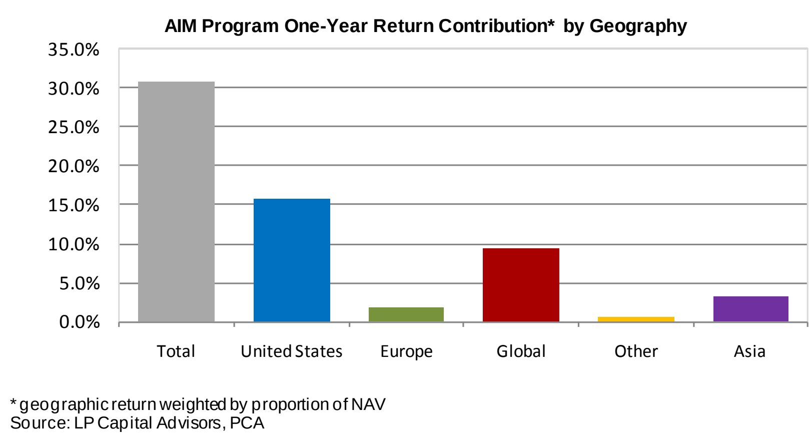
*sector return weighted by proportion of NAV
Source: LP Capital Advisors, PCA

Over the latest three-year period, the Buyout sector (posting a 1.7% average annual return), the Special Situations sector (with a 2.1% average annual return), and Natural Resources (posting a 15.1% return) contributed to positive results. The Buyout sector was the largest contributor to results over the latest three-year period due to the large allocation. The three-year and five-year results reflect the difficult investment environment, and associated valuation declines, during the economic crisis. The Buyout sector has generated attractive results over the longer five-year and ten-year periods, posting average annual returns of 13.0% and 8.7%, respectively.

AIM, like the other asset classes, invests globally, which is highlighted by the Program's allocation of 53% to the United States, 21% allocated across other regions of the world and 26% allocated globally across all geographies. The following charts depict distribution by NAV and performance according to the geographic emphasis of a partnership.

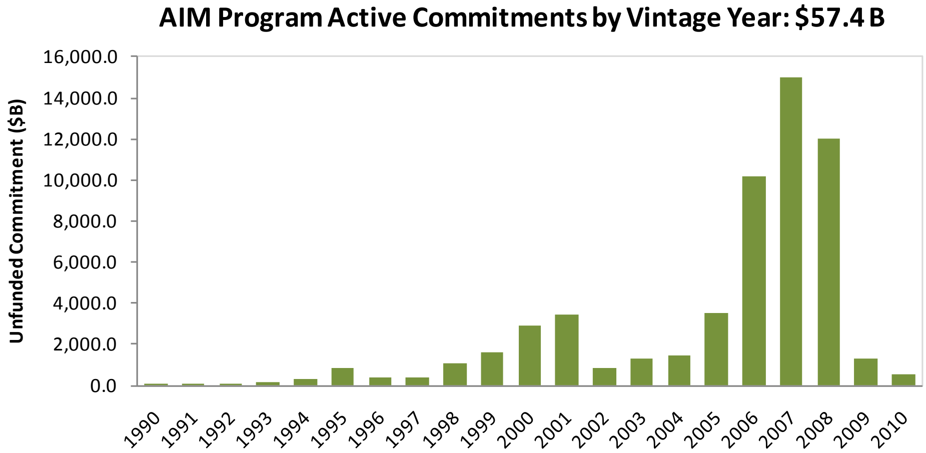


Performance results continued to improve across all geographic sectors (as aggregated for this report) over the latest one-year period. The United States, representing the largest exposure of the portfolio, had the largest impact on performance results over the past year. AIM's Global exposures provided the second largest positive contribution, as many of the large buyout funds and special situation funds that generated strong results over the latest year are categorized as global mandates. Asia and Europe also contributed to positive returns over the latest year, but in lesser magnitude.



Over the latest three-year period, the United States and Asia provided the largest contributions to positive results. AIM's Europe and Global exposures dampened results over this time period posting average annual returns of (0.1%) and (1.7%), respectively. The United States has historically represented the largest component of the Program but this has decreased over recent years with the globalization of the Portfolio. The United States exposure posted average annual returns of 9.2% and 4.3% over the latest five-year and ten-year periods, respectively.

Since the AIM Program began in 1990, it has committed $65.8 billion in aggregate commitments and currently has $57.4 billion in active commitments. As highlighted in the chart below, commitment activity significantly increased in the 2006, 2007, and 2008 vintage years. Consistent with the behavior of other large private equity investors, AIM made very few new commitments ($1.3 billion) during 2009 and only $500 million year-to-date in 2010.



Source: LP Capital Advisors

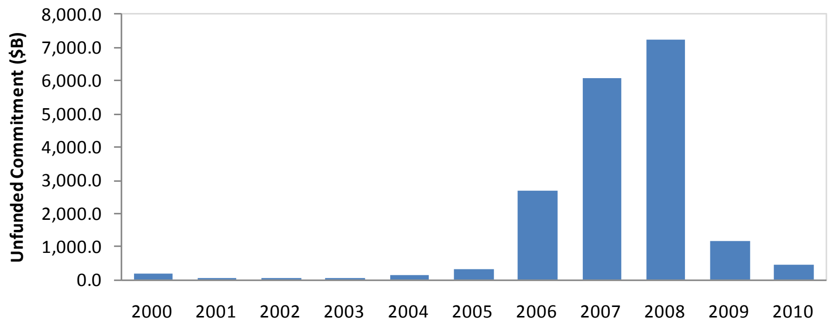
As mentioned above, only three commitments have been made year-to-date by the AIM Program. These commitments were to the buyout sector (micro buyout fund targeting transactions in Latin America), distressed (non-control / rescue financing), and the growth/expansion (technology-related companies, on a global basis) sector.

2010 AIM YTD Commitment Activity

Partnership	Commitment	Sector	Relationship
Advent Latin America Private Equity Fund V, L.P.	$100 M	Buyout	Existing
Blackstone/GSO Capital Solutions Fund, L.P.	$250 M	Distressed	Existing
Riverwood Capital Partners, L.P.	$150 M	Growth/Expansion	New

An analysis of the existing unfunded commitments shows that general partners have substantial "dry powder" ($18.6 billion according to LP Capital Advisors' data) to pursue investments consistent with the strategies contained in their limited partnership agreements with AIM. As would be expected, the majority of these unfunded commitments remain with the more recent vintage years. In 2006, $10.1 billion was committed and remains 27% unfunded as of June 30, 2010. The more recent years of 2007 and 2008 made commitments of $15.0 billion (41% unfunded) and $12.0 billion (60% unfunded), respectively. With only $1.3 billion of commitments made in 2009, there remains $1.2 billion of unfunded commitments (91% unfunded).

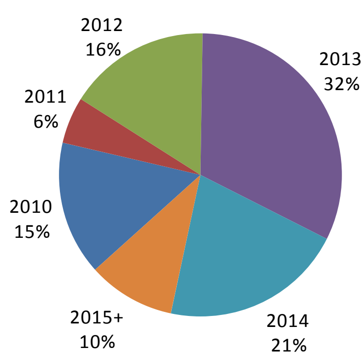
AIM Program Unfunded Commitments by Vintage Year: $18.6 B



Source: LP Capital Advisors

The majority of these existing unfunded commitments are expected to be deployed within the next five years (as determined by the termination of the investment period). However, the pace at which capital is drawn down is primarily at the discretion of each general partner and may be called at any time.

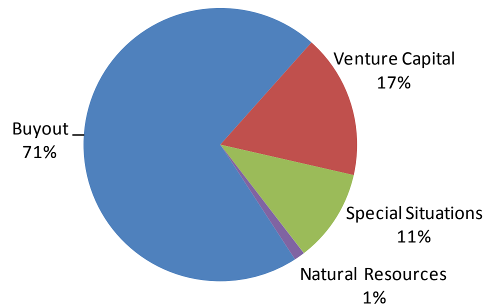
AIM Program Unfunded Commitments by Termination of Investment Period: $18.6 B



Source: LP Capital Advisors, PCA

Sector-wise, Buyouts represent the greatest proportion of the Program's unfunded commitments at 71% (representing $13.2 billion of capital).

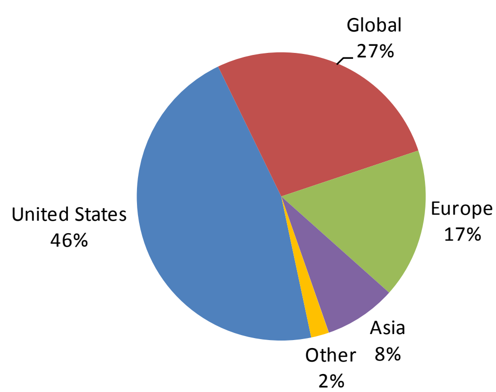
AIM Program Unfunded Commitments by Sector: $18.6 B



Source: LP Capital Advisors

On a geographic basis, the United States is expected to receive 46% of remaining unfunded commitments. Despite being the largest single geography, the majority of unfunded commitments do not specifically target United States investments, highlighting the global nature of the Program going forward.

AIM Program Unfunded Commitments by Geography: $18.6 B



Source: LP Capital Advisors

General conditions

Industry Terms and Conditions. The fund raising and transaction environment remains difficult for private equity managers and is expected to continue over the near-term, with uncertainty about its end point. Continued challenges in manager fund raising may result in greater negotiating power for limited partners. As mentioned in prior reports, the Institutional Limited Partners Association (ILPA) has published the ILPA Private Equity Principles, a best practice document that is expected to help guide future investments in private equity and move the industry a step closer to establishing a set of guidelines that could improve the alignment of interests, enhance fund governance, and provide greater transparency to investors. CalPERS, along with more than 120 other institutional investors, have endorsed the ILPA Private Equity Principles which limited partners can consider when negotiating with general partners. ILPA continues to dialogue with its members regarding specific areas of emphasis regarding private equity terms and conditions.

Private Market Conditions. Private market dynamics continue to be impacted by a challenging marketplace. U.S. buyout deal volume reached only $22 billion in transaction value for the first six months of 2010, above the $10 billion transacted in the first half of 2009 but well below the buyout transaction values of $75 billion and $222 billion for the first six months of 2008 and 2007, respectively. Recent transactions have been completed using more conservative capital structures and increased equity contributions in leveraged buyout (LBO) transactions, with both debt multiples and purchase price multiples having declined from the peaks seen in 2007. However, both purchase price multiples and debt multiples have increased in 2010 from the near-term lows in 2009. Many industry participants believe that the recent increase in purchase price multiple has been caused by general partners feeling pressured to deploy capital. This is due to the significant amount of “dry powder” remaining in the industry combined with the approaching termination of some funds’ investment periods.

Venture capital investment activity increased throughout 2009 and continued an upward trend in the second quarter of 2010 after a slight dip in the first quarter. Approximately $11.2 billion was invested across 1,591 transactions in the first six months of 2010, up from $7.6 billion invested across 1,315 transactions in the first half of 2009. Exit opportunities for venture-backed companies are showing signs of increased activity, but the markets have yet to exhibit consistent exits. In the first six months of 2010, 216 venture-backed M&A transactions representing $8.5 billion in value were completed, well above the $3.2 billion in value transacted in the first six months of 2009. IPO activity has also increased during the first six months of 2010 as 22 venture-backed companies went public, raising $1.9 billion compared to only 5 venture backed-IPO’s in the first half of 2009 raising $0.7 billion.

Private equity fund raising remained slow through 2009, finishing the calendar year well below prior highs. Commitment activity year-to-date in 2010 also remains low. Through the first six months of 2010, only $45.1 billion in aggregate domestic commitments have been raised led by buyouts at $21.0 billion, followed by secondary and other ($8.4 billion), venture capital ($7.5 billion), mezzanine ($4.4 billion), and fund-of-funds ($3.8 billion).

Uncertain Economic Climate. The global economy continues to exhibit volatility and uncertainty about its ultimate recovery. In the United States, there are several factors that are contributing to the domestic uncertainty, such as the recent legislation regarding financial reform and its impact on completing transactions, the potential cost to employers of the Patient Protection and Affordable Care Act, and the possible expiration of tax cuts established in 2001 and 2003. It appears to some that corporate America, which is reputed to have almost $2 trillion of cash available for investment, is waiting for the ultimate decision on the continuation of the 2001 and 20033 tax cuts.

AIM Program management

Effective May 6, 2010, the AIM program staff began reporting directly to the Chief Investment Officer. On August 26, 2010, the Senior Investment Officer who had been in charge of AIM and was on administrative leave, resigned from CalPERS. A search for his replacement is planned. As the Investment Committee’s consultant, PCA is providing guidance and additional assistance to staff during this transitional period.

Appendix 1: AIM Relationships by Market Value

Firm	Market Value ($M)	Investments	% of Program
Apollo	3,712	14	13%
Carlyle Group	2,872	36	10%
TPG	1,580	17	6%
Grove Street Advisors	1,406	4	5%
Avenue Capital Group	1,087	7	4%
CVC	958	8	3%
KKR	915	6	3%
Pacific Corporate Group	872	5	3%
Blackstone Group	797	8	3%
Silver Lake	763	6	3%
Ares Management	676	5	2%
Hellman & Friedman	672	4	2%
Yucaipa Companies	598	6	2%
First Reserve	554	5	2%
Leonard Green & Partners	542	5	2%
Advent International	482	7	2%
WL Ross & Co	424	6	1%
Centinela Capital Partners	409	3	1%
Aurora Capital Group	374	6	1%
Arclight Capital	365	3	1%
Madison Dearborn	333	4	1%
Wayzata	329	2	1%
Providence Equity	322	2	1%
Welsh Carson	299	7	1%
Conversus Asset	285	2	1%
THL Equity	250	2	1%
Bridgepoint Capital	248	5	1%
New Mountain Capital	248	2	1%
Hamilton Lane	238	1	1%
TowerBrook Capital	232	3	1%
Coller Capital	230	4	1%
Clearwater Capital	227	3	1%
Oak Hill Capital Partners	224	2	1%
Audax Group	218	4	1%
MHR	207	2	1%
Oak Hill Investment	183	1	1%
Permira	180	5	1%
Enterprise Investors	165	3	1%
Lion Capital	161	1	1%
Francisco Partners	154	2	1%
Levine Leichtman	145	4	1%
Birch Hill Equity	138	1	<1%
Asia Alternatives	126	10	<1%
Health Evolution Partners	124	5	<1%
SL Capital Partners	119	1	<1%

Appendix 1: AIM Relationships by Market Value (continued)

Firm	Market Value ($M)	Investments	% of Program
Candover	117	4	<1%
Lombard Investments	115	3	<1%
TA Associates	114	2	<1%
GSO Capital Partners	111	1	<1%
SAIF Partners	111	1	<1%
Palladium Equity Partners	104	1	<1%
W Capital	102	2	<1%
Lexington Partners	95	5	<1%
Lime Rock Partners	95	3	<1%
Khosla Ventures	88	2	<1%
Quadrangle	80	1	<1%
Insight Capital	80	2	<1%
Parish Capital	70	2	<1%
Kline Hawkes	66	1	<1%
Court Square	65	1	<1%
Rhone Capital	64	1	<1%
Ironbridge Capital	64	2	<1%
Clessidra Capital	64	2	<1%
VantagePoint Venture	62	2	<1%
The Jordan Company	59	1	<1%
Tricor	59	1	<1%
Clarus Ventures	58	2	<1%
GGV Capital	58	2	<1%
Magnum Capital	57	1	<1%
Huntsman Gay Capital	56	1	<1%
Aisling Capital	55	2	<1%
ACON Investments	55	1	<1%
Prospect Partners	54	2	<1%
KPS Capital Partners	54	1	<1%
Crimson Capital	53	1	<1%
Freeman Spogli & Co.	52	2	<1%
Banc of America Capital	52	1	<1%
Affinity Equity	50	1	<1%
Falconhead Capital	46	1	<1%
Tailwind Capital	40	1	<1%
New Enterprise Associates	36	1	<1%
Richardson Capital	32	2	<1%
Markstone Capital	31	1	<1%
Pinnacle Ventures	30	1	<1%
Darby Investors	30	2	<1%
Essex Woodlands Health	29	1	<1%
EMAlternatives	29	1	<1%
Arrow Mezzanine, LLC	27	2	<1%
Lightspeed Venture	27	1	<1%
Baring Vostok	26	1	<1%
Pharos Capital	23	1	<1%

Appendix 1: AIM Relationships by Market Value (continued)

Firm	Market Value ($M)	Investments	% of Program
Aberdare Ventures	22	2	<1%
Craton Equity Partners	21	1	<1%
Ripplewood	20	1	<1%
Element Partners	18	1	<1%
Clearstone Venture	17	1	<1%
Nogales Investors	16	2	<1%
Rosewood Capital	16	1	<1%
Trinity Ventures	16	1	<1%
DFJ Frontier	15	1	<1%
ICV Capital	14	2	<1%
RockPort Capital	13	1	<1%
Emergence Capital	12	1	<1%
Alta Partners	12	1	<1%
Perseus LLC	11	1	<1%
Garage Technology	10	1	<1%
Vicente Capital Partners	8	1	<1%
NGEN Partners	7	1	<1%
Gael Partners	7	1	<1%
Giza Venture Capital	6	1	<1%
Doughty Hanson	5	1	<1%
Technology Partners	4	2	<1%
Enertech	4	1	<1%
Thomas Weisel Partners	3	1	<1%
Brown Brothers Harriman	3	1	<1%
Opportunity Capital	3	1	<1%
Pacific Community	2	1	<1%
RSTW	1	1	<1%
Fenway Partners	1	1	<1%
SpaceVest	1	1	<1%
TSG Capital	1	1	<1%